

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: City of Warren, Michigan Police and Fire Retirement Systems	County Macomb
Audit Date December 31, 2005	Opinion Date June 6, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037
Accountant Signature 			

City of Warren Police and Fire Retirement System

**Financial Report
with Supplemental Information
December 31, 2005**

City of Warren Police and Fire Retirement System

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Independent Auditor's Report

To the Retirement Commission
City of Warren, Michigan
Police and Fire Retirement System

We have audited the accompanying basic financial statements of the City of Warren Police and Fire Retirement System (a component unit of the City of Warren, Michigan) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Police and Fire Retirement Commission of the City of Warren. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Warren Police and Fire Retirement System as of December 31, 2005 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 6, 2006

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City of Warren Police and Fire Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2005	2004
Total assets	\$ 329,649,294	\$ 322,373,461
Total liabilities*	39,037,234	40,976,905
Assets held in trust for pension benefits	<u>\$ 290,612,060</u>	<u>\$ 281,396,556</u>
Net investment gain*	\$ 21,069,893	\$ 29,168,801
Contributions:		
Employee	410,899	469,432
Employer	3,115,473	492,760
Employer contributions made on behalf of employees	1,165,266	1,402,911
Retiree pension and annuity benefits	15,178,907	14,565,773
Member refunds and annuity withdrawals	1,161,357	905,080
Benefits paid, refunds, and withdrawals in excess of contributions	11,648,626	13,105,750
Ratio of benefits paid to contributions	3.48	6.54
General and administrative expenses	\$ 205,763	\$ 239,741
Net increase in net assets held in trust	9,215,504	15,823,310

* Includes securities lending transactions

City of Warren Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Warren Police and Fire Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The City of Warren Police and Fire Retirement System has established asset allocation policies, which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation (in percentages) as of December 31, 2005:

	<u>Percentage</u>
Large Cap Domestic Equities	39
Small Cap Domestic Equities	16
International Equities	15
Fixed Income Securities	25
Cash	3
Other	4

Investment Results

The stock market, as measured by the S&P 500 Index, increased 4.9 percent, on top of a 2004 gain of 11 percent. The System experienced an overall gain of 8.26 percent on its investment portfolios, due primarily to positive moves in the market value of stocks. The System's equity portfolio returned 10.74 percent and the fixed income portfolio added 2.91 percent in 2005.

While this year's total fund investment return is encouraging, it must be considered in a longer-term context. The asset allocation of the fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the retirement system over many years, not just one or two years.

Contacting the System's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the System's office at 23295 Schoenherr, Warren, Michigan 48089 or to call (586)774-6564.

City of Warren Police and Fire Retirement System

Statement of Plan Net Assets December 31, 2005

Assets

Cash (Note 5)	\$ 111,116
Due from City of Warren - General Fund	589,780
Accrued interest and dividends receivable	1,034,486
Investments (Note 5):	
U.S. government obligations	24,881,127
U.S. government agencies' notes and debentures	15,343,755
Corporate and other bonds and securities	28,206,706
Equities	187,118,002
Securities lending short-term collateral bank investment pool	36,918,802
Short-term cash management funds	10,907,458
Distressed debt recovery fund	1,276,699
Mezzanine debt financing	500,400
Equity mutual funds	9,178,288
Fixed income mutual funds	3,647,764
Real estate investment trusts	9,584,577
Private equity	350,334
	<hr/>
Total investments	327,913,912
	<hr/>
Total assets	329,649,294

Liabilities

Due to City of Warren - General Fund	113,183
Amounts due broker under securities lending agreement	36,918,802
Accounts payable:	
Money managers - Net	1,971,885
Other	33,364
	<hr/>
Total liabilities	39,037,234

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the additional information)

\$ 290,612,060

City of Warren Police and Fire Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2005

Additions

Investment income:	
Interest and dividends	\$ 7,665,711
Net appreciation in fair value of investments	14,769,162
Less investment expenses	<u>(1,433,467)</u>
Net investment income	21,001,406
Securities lending income:	
Interest and fees	1,161,354
Less borrower rebates and bank fees	<u>(1,092,867)</u>
Net securities lending income	68,487
Contributions:	
Employee contributions	410,899
Employer contributions	3,115,473
Employer contributions made on behalf of employees (Note 3)	<u>1,165,266</u>
Total additions and investment income	25,761,531

Deductions

Retirees' pension benefits	15,178,907
Member refunds and withdrawals	1,161,357
Administrative expenses	<u>205,763</u>
Total deductions	<u>16,546,027</u>

Net Increase 9,215,504

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>281,396,556</u>
End of year	<u>\$ 290,612,060</u>

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies

The City of Warren Police and Fire Retirement System (the "System") is the administrator of a single-employer public employees' retirement system that covers substantially all police and fire employees of the City of Warren, Michigan. The financial statements of the System are also included in the combined financial statements of the City of Warren (the "City") as a pension trust fund.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by city ordinance and negotiation with the police and fire collective bargaining units. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 391 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 374 current active employees.

Note 3 - Contributions

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay pension benefits when due.

Police and fire employment contracts provide for direct employee pension contributions of 1 percent of payroll for all fire employees and for police employees hired prior to July 1, 2000 and 5 percent of payroll for all police employees hired after July 1, 2000. In addition, the agreements provide that City contributions, equal to 4 percent of payroll, be made on behalf of all fire employees and the police employees hired prior to July 1, 2000. Under the terms of the contracts, these employer contributions made on behalf of the employees are effectively treated as direct employee contributions and are, therefore, recorded in the reserved net asset balance for employee contributions.

Administrative costs of the plan are financed through investment earnings.

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 4 - Reserves

As of December 31, 2005, the System's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 20,044,489
Reserve for retired benefit payments	152,163,651

Note 5 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had deposits of approximately \$118,000, of which the entire amount was covered by federal depository insurance. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 5 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day or less maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	0-5 years	5-15 years	15 years or more
Asset Backed	\$ 1,098,131	\$ 586,755	\$ 320,089	\$ 191,287
Corporate - Variable	1,313,795	530,929	775,920	6,946
Corporate - CMO	684,446	181,133	90,938	412,375
Corporate - Domestic	19,570,984	7,950,429	7,353,517	4,267,038
Federal Agencies	12,797,011	6,291,147	6,401,837	104,027
FHLM Pools	1,539,183	942,524	579,121	17,538
FNMA Pools	892,940	188,532	565,416	138,992
Foreign Corporate - Fixed	1,498,650	805,838	657,935	34,877
Foreign Corporate - Variable	98,690	17,050	24,084	57,556
Foreign Government	137,194	70,592	66,602	-
GNMA I Pools	114,621	-	-	114,621
International Agency	6,534	-	-	6,534
Municipal Bonds	404,884	400,000	4,884	-
Private Placement - Fixed	2,893,776	441,168	1,329,403	1,123,205
Private Placement - Variable	499,622	37,795	7,324	454,503
U.S. Government Obligations	24,881,127	12,456,878	7,136,344	5,287,905

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 5 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment Type - Rating	Fair Value	Rating Organization
Asset Backed - AAA	\$ 1,083,277	S & P
Asset Backed - BBB	14,852	S & P
Corporate - Variable - A	505,949	S & P
Corporate - Variable - A+	388,996	S & P
Corporate - Variable - AA	386,924	S & P
Corporate - Variable - AAA	6,946	S & P
Corporate - Variable - BBB-	24,980	S & P
Corporate - CMO - AAA	391,374	S & P
Corporate - CMO - N/R	293,072	S & P
Corporate - Domestic - A	4,351,334	S & P
Corporate - Domestic - A-	1,849,219	S & P
Corporate - Domestic - A+	4,062,087	S & P
Corporate - Domestic - AA	450,770	S & P
Corporate - Domestic - AA-	598,531	S & P
Corporate - Domestic - AA+	10,616	S & P
Corporate - Domestic - AAA	812,449	S & P
Corporate - Domestic - BB	287,264	S & P
Corporate - Domestic - BB+	143,040	S & P
Corporate - Domestic - BBB	2,536,249	S & P
Corporate - Domestic - BBB-	2,152,771	S & P
Corporate - Domestic - BBB+	2,125,635	S & P
Corporate - Domestic - N/R	191,020	S & P
Federal Agencies - AA-	4,986,280	S & P
Federal Agencies - AAA	7,810,731	S & P
FNMA Pools - N/R	892,940	S & P

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 5 - Deposits and Investments (Continued)

Investment Type - Rating	Fair Value	Rating Organization
Foreign Corporate - Fixed - A	\$ 40,407	S & P
Foreign Corporate - Fixed - A-	15,081	S & P
Foreign Corporate - Fixed - A+	239,812	S & P
Foreign Corporate - Fixed - AA	131,038	S & P
Foreign Corporate - Fixed - AA+	487,990	S & P
Foreign Corporate - Fixed - AAA	10,617	S & P
Foreign Corporate - Fixed - BBB	326,399	S & P
Foreign Corporate - Fixed - BBB-	85,328	S & P
Foreign Corporate - Fixed - BBB+	161,978	S & P
Foreign Corporate - Variable - A	8,336	S & P
Foreign Corporate - Variable - A-	15,240	S & P
Foreign Corporate - Variable - A+	17,000	S & P
Foreign Corporate - Variable - N/R	58,114	S & P
Foreign Government - A	5,227	S & P
Foreign Government - A+	70,592	S & P
Foreign Government - BBB	61,375	S & P
International Agency - AAA	6,534	S & P
Muni Bonds - AAA	404,884	S & P
Private Placement - Fixed - A	439,857	S & P
Private Placement - Fixed - A-	1,085,411	S & P
Private Placement - Fixed - AA	377,812	S & P
Private Placement - Fixed - BB+	636,005	S & P
Private Placement - Fixed - BBB-	71,077	S & P
Private Placement - Fixed - BBB+	276,207	S & P
Private Placement - Fixed - N/R	7,407	S & P
Private Placement - Variable - A	20,279	S & P
Private Placement - Variable - BBB	24,840	S & P
Private Placement - Variable - BBB-	400,491	S & P
Private Placement - Variable - BBB+	6,947	S & P
Private Placement - Variable - N/R	47,066	S & P

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2005

Note 5 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency - denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

Security	Foreign Currency	Fair Value
Foreign Bonds	Euro	\$ 878,275
	Yen	462,961
	UK Pound	234,928
	Other	131,339
	U.S. Dollar	33,783
Foreign Stocks	Euro	20,636,657
	Yen	11,111,064
	UK Pound	5,638,265
	Other	3,152,133
	U.S. Dollar	810,785

Note 6 - Risk Management

The System's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System has commercial insurance for such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Required Supplemental Information

City of Warren Police and Fire Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (Percentage) (a/b)	Valuation Payroll	Unfunded AAL as a Percentage of Valuation Payroll
12/31/99	\$ 291,279,446	\$ 230,109,735	\$ (61,169,711)	126.58	\$ 25,814,862	-
12/31/00	315,902,368	230,836,429	(85,065,939)	136.85	26,048,853	-
12/31/01	322,076,923	249,131,827	(72,945,096)	129.28	28,469,158	-
12/31/02	305,839,164	254,162,580	(51,676,584)	120.30	28,352,146	-
12/31/03	288,185,499	263,489,300	(24,696,199)	109.40	29,400,497	-
12/31/04	277,076,691	283,888,444	6,811,753	97.60	30,306,876	22.50

City of Warren Police and Fire Retirement System

Required Supplemental Information Schedule of Employer Contributions

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, is as follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	12 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	0.1%-3.0%
*Includes inflation at	5.0%
Cost of living adjustment	None

<u>Years Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2000	\$ 6,211,651	100.00
2001	6,190,998	100.00
2002	3,704,792	100.00
2003	1,297,595	100.00
2004	1,895,672	100.00
2005	4,280,739	100.00

June 30, 2005

To Mr. Ronald Pollett
Deputy Secretary
Office of the Council - City of Warren
8300 Common Road
Warren, MI 48093

Dear Mr. Pollett:

Enclosed are 30 copies of the City of Warren Police and Fire Retirement System financial report for the year ended December 31, 2005.

Would you please see that the copies are distributed to members of the council, the retirement commission, the treasurer's office, and the Controller's Office. The remainder of the financial statements should be distributed to Greg Suma.

Please call if you have any questions.

Very truly yours,

Plante & Moran, PLLC